

## **Geopolitical Scenarios and the Fuel and Energy Complex: The New Reality**

### KEY CONCLUSIONS

#### **Energy industry and geopolitics are interrelated**

“There has always been some connection between the energy industry and geopolitics, as demonstrated by the various world events around strategic goods, such as oil and gas,” Thomas Graham, Managing Director, Kissinger Associates.

“The key factor is that we need scenarios, including the development of the global energy industry, the Russian energy industry, to understand how energy affects the economy, what direct and reverse links are being formed here, and then change the economic policy,” Aleksandr Shirov, Deputy Director, Head of the Analysis, Production Potential Forecasting and Cross-industry Cooperation Lab, Institute of Economic Forecasting of the Russian Academy of Sciences.

“Geopolitics influence the parameters related to the construction, in our case – of the gas infrastructure,” Dmitriy Sokolov, Head of the Department of Energy Economics and Forecasting, Gas Exporting Countries Forum (GECF).

### ISSUES

#### **Underestimation of the role of the energy sector in the development strategies of the Russian economy**

“For the past two years, large research groups have been working on a strategy for the development of the Russian economy. In these projects, the energy sector and its impact on the economy received undeservedly little attention. Unfortunately, we only gradually began to consider the energy sector in terms of tax revenues and ever less look at how it impacts the development of the economy, the generation of demand, and in the end, what can we get from it in the future,” Aleksandr Shirov, Deputy Director, Head of the Analysis, Production Potential Forecasting and Cross-industry Cooperation Lab, Institute of Economic Forecasting of the Russian Academy of Sciences.

### SOLUTIONS

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## **Transition to scenario planning of the industry development based on long-term factors**

"In today's changing world, where the number of factors that affect the entire system and their change rate is constantly growing, forecasting cannot possibly cover all the multidimensional range of options that may occur in the future. Therefore, an approach to scenario planning has been adopted," Maksim Nechaev, Director for Consulting, IHS Markit Russia.

"Our strategy is based on scenario thinking. Now we are developing a strategy that we will publish at the end of this year, revealing our approach to these scenarios. We assumed the basics: we look at what technological changes may affect the demand, investment, technological development," Sergey Vakulenko, Head of Strategy and Innovations Department, Gazprom Neft.

## **Improving analytical tools**

"In reality, we see rapid changes. <...> We must look at the whole range of uncertainties and challenges. Whenever possible, it is necessary to make decisions that are not so dependent on this huge range of factors," Vladimir Feigin, President, Institute for Energy and Finance.

"The current information environment contains a large number of indirect factors, which at first glance may seem irrelevant to the energy market, at least short term but in the long term, they may have an impact, and what this effect will strongly depend on how much we understand market shaping potential of these factors," Maksim Nechaev, Director for Consulting, IHS Markit Russia.

"Today's key factors of successful scenario planning are not only deep knowledge, understanding of the market, but also regular tracking, grasping relationships and measuring, modelling and testing scenarios for compliance with the reality," Maksim Nechaev, Director for Consulting, IHS Markit Russia.

"I often make mistakes, I am often wrong, but I understood one thing: we must always be prepared for the worst. In today's dynamic world, you need to be able to predict revolutions, for example, the shale gas revolution in the United States. It gave the economic independence and complete freedom of action in the East. Alternatively, the 'green' revolution in China led to abandoning coal and switching to more environmentally friendly gas. These are the kinds of things we should foresee to avoid awkward situations," Nobuo Tanaka, Chairman, Sasakawa Peace Foundation; Executive Director (2007–2011), International Energy Agency.

## **Predicting macroeconomic policy**

“Macroeconomic forecasting and macroeconomic scenario modelling are called to justify the economic policy. A good forecast is the one that leads to real changes in economic policy, for example, to the reduction of the tax burden. Our country needs to know whether the demand for hydrocarbon fuels will decrease. So, according to our estimates, worst-case scenario up to 2040 does not show a decrease, even if 25% of cars and trucks in the world switch to electric motors,” Aleksandr Shirov, Deputy Director, Head of the Analysis, Production Potential Forecasting and Cross-industry Cooperation Lab, Institute of Economic Forecasting of the Russian Academy of Sciences.

## **Interaction of market participants**

“The society should have the stakeholders responsibility, their interaction, not necessarily cartels, but including analytical interaction for the enhanced understanding of the situation,” Vladimir Feigin, President, Institute for Energy and Finance.